

EXHIBIT 1
SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT FOR A COMPREHENSIVE SOLUTION TO THE FRUITRIDGE VISTA WATER SUPPLY SITUATION

This agreement is designed to provide a comprehensive solution to Fruitridge Vista Water Company's current water supply problems, including resolution of compliance issues addressed in the California Department of Health Services (DHS) Compliance Order No. 01-09-05-CO-002 issued August 29, 2005, which was caused by MTBE contamination, and the Central Valley Regional Water Quality Control Board Order issued January 2003, and to develop new water supply to allow Fruitridge Vista to serve current users and new development projects in its service territory.

To address the DHS Compliance Order it is expected that approximately 2100-2300 gallons per minute (gpm) of alternative supply is necessary to replace supply from Wells 1, 2, and 12 that has been lost to contamination, and to conform with criteria for capacity redundancy. To address new development needs, approximately 1300 gpm is needed to supply new development projects that are already identified. The parties agree that all of the supply needs should be addressed now because implementation of a comprehensive solution will be less costly than pursuing piecemeal supply solutions.

The comprehensive solution consists of two new interconnections with the City of Sacramento, purchase of water from the City of Sacramento as needed, construction of three new wells, and associated piping and pressure infrastructure and is estimated to cost \$12.0 million. In addition, Fruitridge Vista agrees to destruction of Wells 1, 2, 11, and 12, per DHS request, which will

occur after testing consistent with the requirements of the RWQCB Order. As a result of the mediation efforts, Fruitridge Vista has already begun the process of pursuing necessary regulatory approvals from DHS to implement this comprehensive solution to the supply issues caused by MTBE contamination. Fruitridge Vista has also begun discussions with the City of Sacramento regarding the specific cost, timing, and payment terms of its buy-in, interconnection, and water purchase costs with the City. DHS Northern California Field Office issued its preliminary approval of well locations included in the comprehensive solution on January 17, 2006. Fruitridge Vista will submit detailed design plans and specifications for test wells 45 days after the well locations are approved. DHS will review the detailed design plans and specifications submitted by Fruitridge Vista within 30 days of its receipt of same and will either issue its approval or advise Fruitridge Vista of deficiencies in the plans within that 30 day review period. Fruitridge Vista will provide DHS with all information necessary to cure any such deficiencies within 10 days of its notification by DHS. Fruitridge Vista will begin construction of the comprehensive solution no later than 45 days after DHS approval of detailed design plans and specifications. Notwithstanding the foregoing, Fruitridge Vista agrees not to commence construction of the solution until it is notified by DHS that all required environmental review (including but not limited to CEQA compliance) has been completed. Based on the schedule committed to by DHS and Fruitridge Vista, Fruitridge Vista will begin construction of the comprehensive solution in May 2006 and the solution will be in place in the summer of 2007, barring circumstances not within the control of Fruitridge Vista.

The comprehensive solution costs are made up of \$6.3 million in infrastructure costs and \$5.7 million associated with the right to purchase water from the City of Sacramento. Funding for the

comprehensive solution will come from the following sources: DHS Drinking Water Treatment and Research Fund, a new special facilities fee, an expected 20-year financing agreement with the City of Sacramento, an expected State Revolving Fund zero interest loan, possible monetary recovery from parties responsible for the contamination of the Fruitridge Vista wells, and ratepayers. The allocation and details of implementation are described below. The signatories to this agreement have reviewed the cost documentation prepared by Fruitridge Vista and discussed other potential solutions, and agree that the comprehensive solution presented here is the least cost solution available, has limited ratepayer impacts appropriately, is based on reasonable cost assumptions, and supports future system improvements.

In order to construct the comprehensive solution on the schedule agreed to, commitments for \$5.5 million in funding have been as part of the mediation process. Payment of \$5.5 million must be made to Fruitridge Vista between May 2006 and November 2006, with a clear source for an additional \$0.8 million in payments between May 2006 and March 2007. The upfront funding relies on a combination of funding from the DHS Drinking Water Treatment and Research Fund and a new special facilities fee.

The settlement assumes the City of Sacramento will finance up to 1.13 million gallons per day (MGD) of the buy-in fee it charges via a 20-year financing agreement at the City of Sacramento's Pool A rate, with 2.11 MGD funded outright by the Drinking Water Treatment and Research Fund and a Safe Drinking Water Revolving Fund loan. The City of Sacramento does not require upfront payment for additional capacity that may be needed by Fruitridge Vista if other potential growth occurs, until such time as that growth actually develops. The buy-in fee

constitutes \$5.7 million of the \$12.0 million comprehensive solution cost. As a condition of this settlement, the City of Sacramento and Fruitridge Vista will execute the standard wholesale water agreement.

DHS issued its commitment letter for \$4.54 million from the Drinking Water Treatment and Research Fund on February 2, 2006 to fund replacement of water supply from Wells 1 and 2, contaminated with MTBE, and an additional \$0.57 million for testing and destruction of Wells 1, 2, 11, and 12, also contaminated by MTBE. Drinking Water Treatment and Research Funds may only be used to cure the existing supply and pressure problems caused by MTBE contamination, not fund new growth, are subject to availability, and pursuant to Health and Safety Code Section 116367(g), no more than \$3.0 million can be provided in each fiscal year. The relevant fiscal year ends June 30, 2006 and sufficient funds are currently available to provide the parties confidence that \$4.54 million will be available on the time schedule required. Funding from the Drinking Water Treatment and Research Fund will be available to Fruitridge Vista upon Fruitridge Vista's execution of a funding agreement with DHS, and will be available in accordance with the terms of said agreement and in compliance with the Drinking Water Treatment and Research Fund Law (Health & Safety Code 116357 et seq). Fruitridge Vista continues to aggressively pursue cost recovery from parties potentially responsible for the MTBE contamination of its drinking water supply. If Fruitridge Vista is successful in its litigation, it will reimburse DHS for that specific funding provided to it from the Drinking Water Treatment and Research Fund in accordance with Health & Safety Code 116367 (f). For example, should Fruitridge Vista recover \$5 million for MTBE contamination, which qualifies for funding under

Health & Safety Code Section 116367(f), Fruitridge Vista will reimburse DHS for that specific funding recovered from the responsible party.

The residential special facilities fee rate is derived by dividing the incremental new supply cost for new development of \$3.87 million by the number of currently planned new development residential units (550 units). The commercial special facilities fee utilizes the same formula for new projects as the County of Sacramento. The special facilities fees would normally be payable upon issuance of a building permit by the County of Sacramento. The tariff sheets in Attachment A are designed to implement this special facilities charge.

As a result of the Settlement, Fruitridge Vista will no longer seek a moratorium on service connections and will provide unconditional will serve letters to developers seeking them within 10 days after approval of settlement. In order to support installation of new infrastructure, several developers have agreed to make payments for special facilities fees to Fruitridge Vista on a schedule independent of the actual date of issuance of building permits. Mercy Housing will pay \$560,000 in special facilities fees to Fruitridge Vista on or before June 30, 2006 based on 80 residential unit permits. Victoria Station, LLC will pay \$140,000 in special facilities fees to Fruitridge Vista on or before August 15, 2006, \$70,000 on or before September 15, 2006, \$70,000 on or before October 15, 2006, and \$70,000 on or before November 15, 2006 based on 50 residential unit permits. Saia will pay \$232,183 in special facilities fees to Fruitridge Vista on or before July 15, 2006. Soccer Planet will pay \$139,199 in special facilities fees to Fruitridge Vista on or before June 30, 2006. The Sacramento Housing and Redevelopment Agency will advance \$420,000 in special facilities fees to Fruitridge Vista on June 30, 2006. These payments

are due on the date specified above unless a building permit is issued earlier, in which case payment of the specified special facilities fees is due upon issuance of said building permit.

The County of Sacramento agrees that it will not grant a building permit without payment of the said fee to Fruitridge Vista Water Company. Named developers who are issued permits based on a higher number of units, greater acreage, or increased meter size will owe additional special facilities fees for the incremental increase in units or size upon granting of a building permit. The specific dollar figures above are calculated based on the number of residential units permitted multiplied by \$7,000 that are reasonably expected to be issued a building permit before year end or based on the formula if a commercial property. The Sacramento Housing and Redevelopment Agency fees will be advanced, prior to it being issued a building permit, based on a project size of 60 units. Upon issuance of a building permit, the Sacramento Housing and Redevelopment Agency will only be required to pay a special facilities fee for units in excess of the 60 units used to calculate the advance. Other developers not named herein will be charged a special facilities fee, payable to Fruitridge Vista upon granting of a building permit for a project located in Fruitridge Vista's service territory. The amount of this fee will be \$7,000/residential, or as set forth in Attachment A, except that the fee may be increased by a reasonable amount based on any added costs.

As part of its agreement to supply water to Fruitridge Vista, The City of Sacramento will allow Fruitridge Vista to enter into a payment plan for 1.13 MGD of the buy-in fee via a 20-year financing agreement at the City of Sacramento's Pool A rate (currently 3.3%). As described in the tariff language, each month, Fruitridge Vista will place an amount, as described in the

attached tariff schedule, collected from each customer, into a trustee account to make payment to the City of Sacramento under the payment plan. Fruitridge Vista shall establish and maintain a separate bank account, to ensure adequate accountability of deposits and disbursements of the principle and interest payments to the City of Sacramento by Fruitridge Vista. Fruitridge Vista will also pay for purchased water costs when water is taken and actual costs of purchased water will be recoverable from ratepayers.

Fruitridge Vista has applied to the Safe Drinking Water State Revolving Fund for a zero interest loan to fund replacement of Well 12 supply, which has not been funded under the DWTRF under Health and Safety Code Section 116367, and other costs associated with curing the existing supply and pressure problems. Fruitridge Vista will aggressively pursue funding from the Safe Drinking Water State Revolving Fund. In the event that Fruitridge Vista obtains a zero interest loan from the State Revolving Fund, those proceeds will pay for 2.11 MGD of buy-in with the City of Sacramento.¹ In no event is Safe Drinking Water State Revolving Funding available to fund water supply necessary to supply growth or potential growth in the Fruitridge Vista service area. The parties further expressly acknowledge that Safe Drinking Water State Revolving Funding is conditioned upon compliance with state and federal Safe Drinking Water State Revolving Fund laws and all applicable rules, guidelines and regulations, certain of which require compliance prior to commencement of construction on the funded project.

Ratepayers will pay off the Safe Drinking Water State Revolving Fund loan through a monthly surcharge, as set forth in Attachment A. Surcharge amounts will be collected by Fruitridge Vista and placed in a trustee account for reimbursement to DHS. Fruitridge Vista shall establish and

¹ A portion of the Drinking Water Treatment and Research Funds will also be applied to pay for the 2.11 MGD.

maintain a separate bank account, to ensure adequate accountability of deposits and disbursements of the Safe Drinking Water State Revolving Fund loan funds advanced by the Department of Health Services to the utility. Fruitridge Vista shall file with the Water Division a copy of the Safe Drinking Water State Revolving Fund loan agreement within 15 days of execution. The tariff sheets in Attachment A are designed to implement this rate increase effective 30 days after Commission approval of the settlement.²

As additional development comes online, the special facilities fees will be applied to physical infrastructure costs and water development costs necessary to serve the growth at Fruitridge Vista's discretion.

In the event that Fruitridge Vista is able to recover monies directly from polluters, the parties agree that plant funded by these monies , up to \$5.0 million, will be ratebased and earn a return of 10%. Upon recovery and investment, Fruitridge Vista will file a Rate Base Offset Advice Letter with the Commission's Water Division to update its ratebase, consistent with this agreement. The purpose of the advice letter will be to provide notice of the update to ratebase and access to documentation of Fruitridge Vista's calculations. California Public Utilities Commission approval of this settlement means that this ratebase treatment of Fruitridge Vista plant, up to \$5.0 million, is not subject to future litigation, either in response to an advice letter or in future general rate cases or otherwise. In the event that Fruitridge Vista is able to recover monies directly from polluters in litigation and invest the money into the system in excess of \$5

² The Settling Parties recognize that Fruitridge Vista may not begin making payments to the City of Sacramento or DHS immediately upon adoption of the Settlement, however, because of the comprehensive nature of the Settlement and the trustee accounts that will hold the funds, for payment, the Settling Parties support implementation of the tariffs within 30 days of adoption of the Settlement.

million, the parties are free to litigate the appropriate ratemaking treatment of assets financed by those funds in excess of \$5 million. Fruitridge Vista commits that it will spend a minimum of 50% of the return it earns from this ratebase treatment on system improvements.

The parties understand that a buy-in fee for the right to purchase water like Fruitridge Vista will pay to the City of Sacramento is normally considered plant and is therefore eligible to earn a rate of return. The parties agree that, for ratemaking purposes, \$1.98 million of the buy-in fee will be treated as plant, as is customary, at the company's authorized rate of return, 11%. California Public Utilities Commission approval of this settlement means that this treatment of \$1.98 million of the buy-in fee for Fruitridge Vista is not subject to future litigation, either in response to an advice letter or in future general rate cases or otherwise. This rate will allow Fruitridge Vista to collect sufficient revenues through the increased monthly billing rate to pay off the financing extended by the City of Sacramento and have \$80,000 per year remaining. Fruitridge Vista commits to make system infrastructure investments of at least \$80,000 per year with the revenues that it collects from ratepayers that exceed the payments due to the City of Sacramento and associated taxes on the buy-in fee associated with 1.13 MGD. If Fruitridge Vista, at Fruitridge Vista's sole discretion, chooses to use special facilities fees to pay off the financing arrangement with the City of Sacramento, those revenues are considered a contribution and will reduce the amount of plant associated with the buy-in fee that is eligible to earn a return. Adjustment to the plant will occur in the next general rate case after such contributions are made.

If special facilities fees outside this comprehensive solution are paid to Fruitridge, Fruitridge Vista will establish a special facilities account that will pay for improvements to the system. Parties agree that special facilities fees are contributions.

The comprehensive solution is based on the ability of Fruitridge Vista to construct and use three new wells and utilize its existing well system. If three wells cannot be permitted by DHS because of water quality concerns, Fruitridge Vista will diligently pursue an alternative solution with DHS, which may include increasing the amount of the City of Sacramento buy-in and/or the construction of a third interconnection with the City of Sacramento. Increasing the buy-in or constructing a third interconnection with the City of Sacramento will result in higher total costs than the comprehensive solution set forth in the Settlement, and will require additional funding sources to be identified.

Fruitridge Vista will provide notice to its customers of the rate increase embodied in this agreement. Additionally, Fruitridge Vista (as lead) and other parties will hold a public meeting to present the settlement within 14 days after filing or in conjunction with the hearing scheduled by the Commission. Notice of both the rate increase and public meeting will be provided in a manner to ensure reasonable publicity.

When this settlement agreement is approved by the CPUC, Fruitridge Vista confirms that it will no longer seek a moratorium on service connections and agrees to provide unconditional will serve letters to developers seeking them within 10 days after approval of settlement. Fruitridge

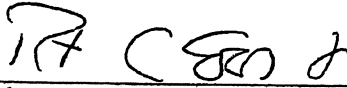
Vista has conferred with the County of Sacramento to ensure that the will serve letters issued will meet the County's needs for purposes of issuing a building permit.

The signatories agree that the terms of this settlement are specific to the facts of this proceeding and shall not serve as precedent for other proceedings before the Commission involving other parties. In the event the Commission rejects any individual provision of the Settlement Agreement, the parties withdraw the Settlement and seek to litigate the cases.

The signatories request that approval of the settlement agreement by the California Public Utilities Commission constitute approval of the tariffs set forth in Attachment A and that an implementing Advice Letter with the Water Division be considered a compliance filing that is effective on the date filed.

The signatories to this agreement ask the Commission to approve and adopt this settlement agreement in its entirety as a comprehensive solution to solve the California Department of Health Services Compliance Order No. 01-09-05-CO-002 issued August 29, 2005 and the January 2003 Regional Water Quality Control Board Order and to develop new water supply to allow Fruitridge Vista to serve new development projects in its service territory and as resolution of this consolidated proceeding. As a result, the Commission should adopt this settlement agreement and dismiss the complaints and application as moot.

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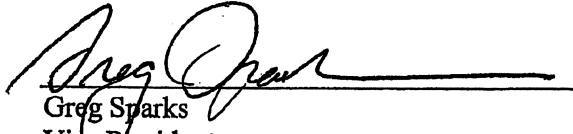
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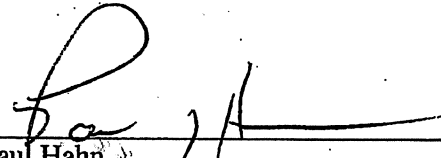
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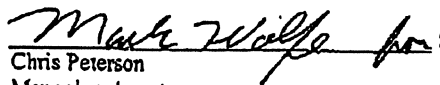
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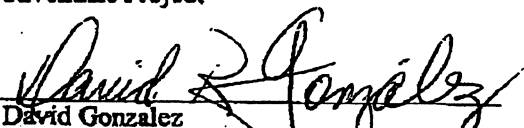
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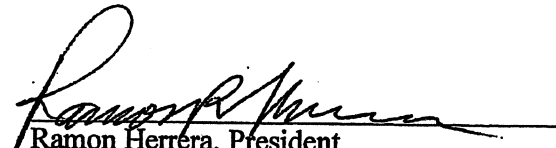
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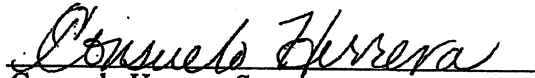
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Al Huggans
Vice President of Operations



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(Continued)

(To be inserted by Utility)

Issued By

(To be inserted by Cal.P.U.C.)

Advice Letter No. _____

Robert C. Cook, Jr.

NAME

Date Filed _____

Decision No. _____

General Mgr.

TITLE

Effective _____

Resolution No. _____

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

In the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Pacific Terrace Units, Bowling Green Units, and all immediately adjoining territory in Sacramento County including all territory contiguous to the southerly limits of the City of Sacramento.

RATES

Quantity Rate:

All Water, per 100 cubic feet..... \$0.467

Service Charge:

Per Meter Per Month

For 5/8 x 3/4 - inch meter	\$ 9.82	(I)
For 3/4 - inch meter	14.73	
For 1 - inch meter	24.55	
For 1-1/2 - inch meter	49.09	
For 2 - inch meter	78.54	
For 3 - inch meter	147.22	
For 4 - inch meter	245.40	
For 6 - inch meter	490.79	(I)

This service charge is a readiness to serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in the unit will, at the company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
4. A surcharge is included on each bill to recover under-collected pumping power costs of \$55,046. The pumping power surcharge is \$0.033 per CCF of water used. The surcharge will be collected over a twelve-month period from the effective date of advice letter 76.
5. A portion of each service charge will be deposited in a separate trustee account and shall be used only for payment of principal and interest associated with the buy-in fee for rights purchase water from the City of Sacramento as adopted by the Commission in D.06-03-0XX. The portion of each service charge that will be deposited in a separate trustee account shall be as follows: for each 5/8" x 3/4" meter, \$1.25; 3/4" meter, \$1.88; 1" meter, \$3.13; 1 1/2" meter, \$6.25; 2" meter, \$10.00; 3" meter, \$18.75; 4" meter, \$31.25, and 6" meter, \$62.50.
6. All bills are subject to the surcharge set forth in Schedule No. DHS.

(N)
|
(N)

(To be inserted by Utility)

Issued By

(To be inserted by Cal.P.U.C.)

Advice Letter No. _____

Robert C. Cook, Jr.

NAME

Date Filed _____

Decision No. _____

General Mgr.

TITLE

Effective _____

Resolution No. _____

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

In the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Pacific Terrace Units, Bowling Green Units, and all immediately adjoining territory in Sacramento County including all territory contiguous to the southerly limits of the City of Sacramento.

RATES

	Per Service Connection	
	<u>Per Month</u>	
1. For a single residential unit, including Premises not exceeding 10,000 sq. ft. in area	\$ 20.07	(I)
a) For each additional single family unit on the same premise and served from the same service connection	\$ 12.64	(I)
b) For each 100 sq. ft. of premises in Excess of 10,000 sq. ft.	\$ 0.18	(I)
2. For each automobile service station, including car wash rack, where service connection is not larger than one inch in diameter	\$ 41.55	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. If the utility so elects, a meter shall be installed and water served under Schedule No. 1, Metered Service.
3. A late charge will be imposed per Schedule No. LC.
4. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in the unit will, at the company's option, be furnished on the account of the landlord or property owner.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
6. A surcharge is included on each bill to recover under-collected pumping power costs of \$55,046. The pumping surcharge is \$0.25 per usage equivalent. The surcharge will be collected over a twelve-month period from the effective date of advice letter 76.
7. A portion of each service charge will be deposited in a separate trustee account and shall be used only for payment of principle and interest associated with the buy-in fee for rights purchase water from the City of Sacramento as adopted by the Commission in D.06-03-0XX. The portion of each service charge that will be deposited in a separate trustee account shall be as follows: each single residential unit \$1.65; each additional single family unit \$0.99; for each 100 sq. ft. of premises in excess of 10,000 sq. ft. \$0.01; and each automobile service station \$3.30. (N)
8. All bills are subject to the surcharge set forth in Schedule No. DHS. (N)

(To be inserted by Utility)
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Schedule No. F

SPECIAL FACILITIES FEESAPPLICABILITY

Applicable to all customers applying for service from Fruitridge Vista Water Company in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises due to change in use.

TERRITORY

In the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Pacific Terrace Units, Bowling Green Units, and all immediately adjoining territory in Sacramento County including all territory contiguous to the southerly limits of the City of Sacramento.

RATES

Initial Fee for each Service Connection:

For each dwelling unit \$7,000

For each commercial project:.....6,809* (net) acres + Meter Connection Fee

Water Meter Size	Connection Fee
1"	\$8,128.00
1.5"	\$18,694.00
2"	\$32,512.00
3"	\$73,152.00
4"	\$130,048.00
6"	\$292,608.00
8"	\$520,192.00

SPECIAL CONDITIONS

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions.
2. Facility fees are payable by the customer applying for service upon receipt of a building permit from the relevant local jurisdiction, unless such fee has already been paid pursuant to the settlement approved in D.06-03-0XX.
3. These fees are not subject to the Public Utility Commission Reimbursement Fee surcharge in schedule UF.
4. These fees shall be deposited in a separate trustee account and shall be used only for the infrastructure and new supply costs associated with the comprehensive solution adopted by the Commission in D.06-03-0XX.

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Schedule No. DHS

STATE REVOLVING FUND SURCHARGEAPPLICABILITY

Applicable to all flat or meter service. This surcharge is specifically for the repayment of the Safe Drinking Water State Revolving Fund loan described in D.06-03-0XX.

TERRITORY

In the unincorporated areas known as Fruitridge Vista Units, Sandra Heights, Pacific Terrace Units, Bowling Green Units, and all immediately adjoining territory in Sacramento County including all territory contiguous to the southerly limits of the City of Sacramento.

MONTHLY SURCHARGE

(Flat Rate Connections)		Per Service Connection Per Month
1.	For a single residential unit, including Premises not exceeding 10,000 sq. ft. in area	\$ 2.18
	c) For each additional single family unit on the same premise and served from the same service connection	\$ 1.31
	d) For each 100 sq. ft. of premises in Excess of 10,000 sq. ft.	\$ 0.02
2.	For each automobile service station, including car wash rack, where service connection is not larger than one inch in diameter	\$ 4.35

(Metered Connections)		Per Meter Per Month
	For 5/8 x 3/4 - inch meter	\$ 1.66
	For 3/4 - inch meter	2.49
	For 1 - inch meter	4.15
	For 1-1/2 - inch meter	8.30
	For 2 - inch meter	13.28
	For 3 - inch meter	24.90
	For 4 - inch meter	41.50
	For 6 - inch meter	83.00

SPECIAL CONDITIONS

1. This surcharge is in addition to the water bill. The surcharge is specifically for the repayment of the Safe Drinking Water State Revolving Fund loan authorized by D.06-03-0XX.
2. The surcharge rates are subject to periodic adjustment.
3. The surcharge shall be deposited in a separate trustee account and shall be used only for the repayment of the Safe Drinking Water State Revolving Fund loan described in D.06-03-0XX.

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